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Organizational session for 2007

Provisional summary record of the 3rd meeting
Held at Headquarters, New York, on Tuesday, 6 February 2007, at 10 a.m.

President: Mr. Mérorès (Vice-President) ..... (Haiti)
later: Mr. Čekuolis (President) ..... (Lithuania)

Contents

Adoption of the agenda and other organizational matters (*continued*)

Elections, nominations, confirmations and appointments (*continued*)

Briefing on the *World Economic Situation and Prospects 2007*

Organization of work

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07-23721 (E)

In the absence of the President, Mr. Mérorès (Haiti), the Vice-President, took the Chair.

The meeting was called to order at 10.20 a.m.

Adoption of the agenda and other organizational matters (*continued*) (E/2007/L.1 and E/2007/L.2)

1. **The President** drew attention to the draft decisions contained in document E/2007/L.1, submitted by the Bureau on the basis of informal consultations held pursuant to paragraph 2 (1) of Council decision 1988/77.

Draft decision I: Proposed date of the special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development

2. *Draft decision I was adopted.*

Draft decision VII: Operational activities segment of the 2007 substantive session of the Council

3. **Mr. Graf** (Germany), speaking on behalf of the Group of Western European and other States, said that the Group would be grateful for more time to consider the draft decision.

4. **The President** said that the Council would revert to draft decision VII and the other draft decisions contained in document E/2007/L.1 at a later date.

Draft resolution E/2007/L.2: Venue and dates of the sixty-third session of the Economic and Social Commission for Asia and the Pacific

5. **Ms. Lee** (Secretary of the Council), speaking in accordance with rule 13 of the Council's rules of procedure, said that under the terms of draft resolution E/2007/L.2 the Council would approve the holding of the sixty-third session of the Economic and Social Commission for Asia and the Pacific (ESCAP) in Almaty, Kazakhstan, from 17 to 23 May 2007. In accordance with paragraph 17 of General Assembly resolution 47/202, United Nations bodies could hold sessions away from their established headquarters when a Government issuing an invitation for a session to be held within its territory had agreed to defray the actual additional costs directly or indirectly involved, after consultation with the Secretary-General as to their nature and possible extent. As the host Government had offered to defray the actual additional costs for holding the session away from ESCAP headquarters in Bangkok, no additional appropriation would be required as a result of the adoption of the draft resolution.

6. *Draft resolution E/2007/L.2 was adopted.*

7. **Mr. Sadykov** (Kazakhstan) said that the sixty-third session of ESCAP would be a major event in the sixtieth anniversary year of its founding. The high-level meeting would consider the Asia and Pacific region's road map for achieving the Millennium Development Goals, while the ministerial round table would be devoted to the theme of the development of health systems in the context of enhancing economic growth. The Asia Pacific Business Forum would also be convened as a side event of the Commission's session.

Elections, nominations, confirmations and appointments (*continued*) (E/2007/2/Rev.1)

Commission on Population and Development

8. **The President** said that the Group of Asian States had endorsed Sri Lanka to fill the outstanding vacancy in that Group on the Commission on Population and Development. He took it that the Council wished to elect Sri Lanka by acclamation to the Commission for a term beginning at the first meeting, in 2007, of its forty-first session and expiring at the close of its forty-fourth session in 2011.

9. *It was so decided.*

10. **The President** said that, in the absence of other candidates, he took it that the Council agreed to further postpone the election of one member from the Group of Western European and other States to the Commission for a term beginning at the first meeting, in 2007, of its forty-first session and expiring at the close of its forty-fourth session in 2011.

11. *It was so decided.*

Commission for Social Development

12. **The President** said that the Group of Western European and other States had endorsed Turkey to fill the outstanding vacancy in their Group on the Commission for Social Development. He took it that the Council wished to elect Turkey by acclamation to the Commission for a term beginning at the first

meeting, in 2007, of its forty-sixth session and expiring at the close of its forty-ninth session in 2011.

13. *It was so decided.*

14. **The President** said that, in the absence of other candidates, he took it that the Council agreed to further postpone the election of one member from the Group of Eastern European States to the Commission for Social Development, for a term beginning at the first meeting of the Commission's forty-sixth session and expiring at the close of its forty-ninth session in 2011.

15. *It was so decided.*

Intergovernmental Group of Experts on International Standards of Accounting and Reporting

16. **The President** said that the Group of Latin American and Caribbean States had endorsed Brazil to fill one of the vacancies in that Group on the Intergovernmental Group of Experts on International Standards of Accounting and Reporting. He took it that the Council wished to elect Brazil by acclamation to the Intergovernmental Group for a term beginning on the date of election and expiring on 31 December 2009.

17. *It was so decided.*

18. **The President** said that, in the absence of other candidates, he took it that the Council wished to further postpone the election of three members from the Group of Latin American and Caribbean States to the Intergovernmental Group, for a term beginning on the date of election and expiring on 31 December 2009 and the election of two members from the Group of Latin American and Caribbean States and three members from the Group of Western European and other States for a term beginning on the date of election and expiring on 31 December 2008.

19. *It was so decided.*

Executive Board of the International Research and Training Institute for the Advancement of Women (INSTRAW)

20. **The President** said that the Group of African States had endorsed Egypt and Zimbabwe to fill the two outstanding vacancies from that Group on the Executive Board of the International Research and Training Institute for the Advancement of Women (INSTRAW). He took it that the Council wished to elect Egypt and Zimbabwe by acclamation to the Executive Board of INSTRAW for a term beginning on the date of election and expiring on 31 December 2009.

21. *It was so decided.*

22. **The President** said that, in the absence of other candidates, he took it that the Council wished to further postpone the election of two members from the Group of Eastern European States to the Executive Board of INSTRAW, for a term beginning on the date of election and expiring on 31 December 2009.

23. *It was so decided.*

Governing Council of the United Nations Human Settlements Programme

24. **The President** said that the Group of Latin American and Caribbean States had endorsed Argentina to fill one of the outstanding vacancies in that Group on the Governing Council of the United Nations Human Settlements Programme (UN-Habitat). He took it that the Council wished to elect Argentina by acclamation to the Governing Council of UN-Habitat for a term beginning on the date of election and expiring on 31 December 2010.

25. *It was so decided.*

26. **The President** said that, in the absence of any other candidates, he took it that the Council wished to further postpone the election of two members from the Group of Latin American and Caribbean States to the Governing Council of UN-Habitat for a term beginning on the date of election and expiring on 31 December 2010.

27. *It was so decided.*

28. **Mr. Sepúlveda** (Observer for Chile) said that his delegation had submitted its candidature for one of the outstanding vacancies in the Group of Latin American and Caribbean States on the Governing Council of UN-Habitat.

29. **The President** said that the Council had taken note of the statement of the Observer for Chile. No candidature had been received for the one remaining vacancy in the Group of Asian States, from the elections held in 2005, on the Governing Council of UN-Habitat. The term of office for the seat would begin on the date of election and expire on 31 December 2008.

Organizational Committee of the Peacebuilding Commission

30. **The President** said that the Group of Western European and other States had endorsed Luxembourg to replace Belgium on the Organizational Committee of the Peacebuilding Commission. He took it that the Council wished to elect Luxembourg by acclamation to the Organizational Committee of the Peacebuilding Commission for a term beginning on the date of election and expiring on 22 June 2008.

31. *It was so decided.*

Commission on Science and Technology for Development

32. **The President** said that the Secretariat had received five endorsements for the 10 new seats on the Commission on Science and Technology for Development. Regional groups should submit their candidatures for the remaining five seats as soon as possible, so that the Council could take action on the election at its next meeting.

33. **Mr. Talbot** (Guyana), speaking on behalf of the Group of Latin American and Caribbean States, said that the Group had endorsed Argentina and Chile to fill two of the vacancies on the Commission on Science and Technology for Development.

34. **The President** said that the Council had taken note of the statement of the representative of Guyana.

35. *The meeting was suspended at 10.50 a.m. and resumed at 11.05 a.m.*

36. *Mr. Čekuolis (Lithuania), President, took the Chair.*

Briefing on the *World Economic Situation and Prospects 2007*

37. **Mr. Ocampo** (Under-Secretary-General for Economic and Social Affairs) introduced the *World Economic Situation and Prospects 2007*, a collaborative effort of the Department of Economic and Social Affairs (DESA), the United Nations Conference on Trade and Development (UNCTAD) and the five regional commissions. His introduction was accompanied by a PowerPoint presentation.

38. The report indicated that after rapid growth for three consecutive years, world economic growth would slow from 3.8 per cent of world gross product (WGP) to 3.2 per cent. All country groups would experience a certain degree of slowdown but growth would continue. The rapid growth in China and India had had a positive effect on overall growth estimates. He noted that the report's forecasts and analyses were based on market prices, the criterion used by national account experts and market analysts, unlike the forecasts of the International Monetary Fund (IMF) and the World Bank, which were based on purchasing power parity (PPP).

39. The least developed countries (LDCs) had experienced strong growth of almost 7 per cent per year in recent years, although some countries had lagged significantly behind. That growth would slow in 2007 but nevertheless remain strong, and be higher than in the developed economies. Those results augured well for the achievement of the Millennium Development Goals.

40. Among the industrialized economies, the major drag on the world economy would be the United States of America, where growth would drop from 3.4 per cent in 2006 to 2.2 per cent in 2007, due in large part to a weakening housing market, although recent data seemed to indicate that that situation had stabilized. Economic growth in Western Europe and Japan would not be sufficient to compensate for the slowdown in the United States of America. Japan's economic growth had averaged 2.5 per cent since 2003 but would slow to 1.7 per cent in 2007. In Western Europe growth of 2.5 per cent had exceeded expectations. A slowdown was nevertheless expected in 2007 although growth in the new member countries of the European Union would be stronger than in the rest of the European Union.

41. Among the economies in transition, the Commonwealth of Independent States (CIS) had maintained a strong pace in 2006, due largely to the high price of oil, gas and metals. Rising export revenues had also stimulated domestic demand. Private capital inflows had further strengthened economic performance in the Russian Federation and Kazakhstan as had official financing and remittances in the other countries of the CIS. Growth in South-Eastern Europe had accelerated to 5.9 per cent in 2006. Overall growth in the economies in transition would slow in 2007.

42. In the developing world, strong growth had continued in China and India, which had become alternative drivers of the world economy, and there was increased South-South trade and foreign direct

investment. Commodity-exporting countries had benefited from high prices and increased demand for their exports, which explained the strong performance of most African and Latin American countries. Sub-Saharan Africa had had four years of record growth; growth would continue to be strong in Latin America, but at the slowest pace in the developing world. Asia, thanks in large part to China and India, would lead economic growth in 2007.

43. Generally the trade environment had been positive for the developing countries, with favourable financial conditions and high commodity prices. High oil prices had not thus far affected economic growth and had benefited oil-exporting countries. Although those high prices had had a negative effect on some countries, in many developing countries strong non-oil commodity prices had compensated for the high price of oil. In addition to high commodity prices, the external financing costs for emerging market economies had remained low in 2006 and the availability of private financing had also been exceptionally good. The developing countries remained vulnerable, however, to the effects of a slowdown in the major developed countries and to volatility in the price of oil and commodities and in financial markets.

44. The poor countries continued to transfer more resources to rich countries than they received in return. Net outward transfers by the developing countries and the economies in transition had reached US$ 658 billion and $125 billion respectively in 2006. The building up of official reserves as a means of protection against external shocks was a key factor in those financial net transfers. Developing countries currently had more than $3 trillion in foreign exchange reserves, with China alone holding more than $1 trillion. That would not, however, insulate the developing countries from the effects of a systemic shock, such as an abrupt change in the value of the dollar, the world's major reserve currency.

45. High oil prices and avian influenza had not had a major negative impact on the world economy in 2006, as had been feared. The current major risks in the short term were the housing sector, especially in the United States, and the unlikely possibility that global imbalances would lead to a major disruption of the world economy. A downturn in the United States housing market would negatively affect the world economy. New home sales in 2006 had dropped by 17.3 per cent relative to 2005 and, although sales had rebounded recently, there was a risk of a further decline in housing prices. A sizeable drop in housing prices would have a more significant impact on consumption than the decline in sales. While the baseline forecast assumed a mild adjustment in the housing market and a moderate slowdown in the United Sates economy, a more pessimistic scenario would see a severe decline in housing prices reducing economic growth in the United States to below 1 per cent in 2007, and cutting world growth from 3.2 per cent to 1.9 per cent. That seemed unlikely, however, and continued relatively rapid economic growth was expected.

46. At the structural level, global current account imbalances had widened in 2006. The United States deficit had increased by $80 billion, to approximately $870 billion. The aggregate current account of the developed economies showed a deficit of more than $600 billion. While Germany had maintained a sizeable surplus of about $120 billion, the euro zone as a whole was showing a small deficit; Japan's surplus of $170 billion remained the largest in absolute terms among the developed countries. Most developing regions were in a surplus situation, with the oil-exporting countries' surplus having increased to $500 billion. The surplus in Asia remained above $200 billion, concentrated in China, the Hong Kong Special Administrative Region and Taiwan Province of China. Latin America likewise had a small surplus, although concentrated in a few countries. Africa had a small surplus and the CIS group had a surplus of more than $100 billion, most of which was accounted for by the Russian Federation. Generally the energy-exporting countries had a surplus, with the exception of some Asian and Latin American countries.

47. The United States dollar had depreciated against the euro and the Japanese yen and was expected to continue to depreciate against most major currencies. A steep fall could upset financial markets and cause an abrupt adjustment of global imbalances. Existing methods for managing macroeconomic policies would not ensure a benign adjustment in global imbalances. The current tendency towards more restrictive monetary and fiscal policies in the industrialized economies would not facilitate an adjustment of the situation in the United States, which should adopt contractionary macroeconomic policies. At the same time, expansionary fiscal policies should be adopted in the rest of the world.

48. The report proposed greater macroeconomic policy coordination and the establishment of a multilateral consultation and monitoring mechanism involving all major players including fair representation of the developing countries, in which the IMF would play a leading role, to coordinate international policy. For example, the Fund had recently established a vehicle for multilateral consultations with a view to enhancing multilateral surveillance, whose role could be strengthened. That body should also work to create a new multi-currency reserve system less dependent on the use of the United States dollar as the world's dominant reserve currency. One possibility might be the use of IMF special drawing rights (SDRs) as a sort of alternative reserve currency.

49. The Economic and Social Council should promote the establishment of such a coordination mechanism at its meeting with the Bretton Woods institutions in April 2007. The need for international policy coordination was more pressing than ever and it would be easier to reach consensus on any necessary adjustments while the world economy was still growing at a relatively strong pace.

50. **Mr. Loizaga** (Paraguay) said that there was a need to distinguish clearly among the various stages of economic development of developing countries, which were often mistakenly considered as a homogeneous whole. Oil-importing landlocked developing countries, for example, were particularly vulnerable to higher energy prices, as higher costs caused their manufactured goods to be less competitive on the international market. He would like to know the reasons Latin America lagged behind other regions, especially as the region had abundant energy resources and considerable agricultural production. It would also be useful to have further clarification on the impact on the region of the Doha Round negotiations deadlock.

51. **Ms. Houngbedji** (Observer for Benin) noted with appreciation that, unlike previous reports, the current report took into account the situation of the least developed countries. Although there had been sustained growth among the least developed countries overall, there were varying rates of growth among them. She would welcome a more detailed analysis of the trends, difficulties and challenges facing oil-importing least developed countries. She would also like to know about alternative models to the United States economy and currency which might be used in future reports.

52. **Mr. Abreha** (Observer for Ethiopia) said that the challenge facing the international community was to sustain the growth in the world economy and ensure that it was equitably distributed to serve the poor. Further information on the role of the Millennium Development Goals and New Partnership for Africa's Development (NEPAD) in that effort would be useful. One way to redress global imbalances would be to increase United States interest rates, which would attract greater resources from abroad. He asked whether there were means, other than monetary tightening, to stabilize the United States housing market.

53. **Mr. Steeghs** (Netherlands) said that the rapid growth in Africa during the past four years was encouraging. He asked about the extent to which such growth had resulted from the macroeconomic policy changes in the region, particularly in sub-Saharan Africa. He would also like to know how pro-poor policies could stimulate economic development and growth within countries and whether the inequalities in Latin America, for instance, were related to its relatively slow growth rate.

54. **Mr. Ocampo** (Under-Secretary-General for Economic and Social Affairs) said that the report had highlighted some of the problems facing several oil-importing countries. For example, in Latin America, a number of countries such as Paraguay had witnessed the deterioration of their trade balances as a result of high energy prices. That was not the case, however, in Chile, which had benefited from an even higher increase in the value of its main export, copper. The contrast between oil-exporting and oil-importing countries was clear in Latin America. While Central America had performed much better than South America following the Asian crisis, the converse was currently true. There were several oil-exporting countries in South America, and many of its oil-importing countries were reducing their dependence on imported energy sources.

55. The low rate of growth in Latin America was due in part to the poor performance of its two biggest economies, Mexico and Brazil, considering that he other economies in the region had performed well. Mexico had faced significant adjustment problems related to growing competition for manufactured goods

on the international market. Although economic performance in Brazil was improving, it was hampered by extremely high interest rates. The previous year's study had found that exporters of manufactured goods had performed better than commodities exporters, a factor which might have a bearing on Latin America in the long term.

56. **Mr. Vos** (Director, Development Policy and Analysis Division, Department of Economic and Social Affairs) said that, like the previous year's report, the current report emphasized the least developed countries while stressing the differences in performance among them. In Africa, some countries were performing well because they had emerged from conflict situations, which had sparked economic growth. The report paid particular attention to the poorer net oil-importing countries which were greatly affected by high energy prices. In some cases, it was estimated that countries could have grown by as much as two percentage points more had there been no rise in oil prices.

57. Concerning the role of the dollar in the world economy, the report explicitly explained the risks of relying too much on it as the reserve currency. A further decline in the dollar could greatly affect the economies of countries which held large amounts of official reserves in dollars. The report therefore put forward proposals for a system which would rely less on the dollar as the single reserve currency, involving either a multi-currency reserve system or the establishment of a supranational currency. Such long-term proposals were aimed at avoiding the disorderly adjustment of global imbalances.

58. With respect to the question raised about the United States housing market, the United States economy could avoid further weakening of the market by lowering interest rates, but that would be inconsistent with the need to continue financing its external deficit. The report suggested the need for better policy coordination among countries so that there could be more stimulus of growth in countries running surpluses to compensate for adjustments in a single economy such as the United States.

59. As for pro-poor growth, the current report addressed the short-term prospects for the global economy. Africa had been enjoying an average growth rate of 5 to 6 per cent. A growth rate of 7 per cent — a target also set by NEPAD — was required, however, to make a significant advance in poverty reduction. Growth in Africa was therefore strong but insufficient. To sustain high growth rates and achieve pro-poor growth, developing countries must seek to diversify their economies and become less reliant on the export of primary commodities, which were vulnerable to price fluctuations. The report highlighted the need for better investment in infrastructure, education and other aspects related to the Millennium Development Goals in order to achieve such growth. The current report did not spell out such growth strategies in great detail, although the issue had been addressed in the *World Economic Situation and Prospects 2006* report. The Economic Commission for Africa would be issuing a report which would specifically address the issue of how to diversify African production and exports as a basis for strengthening growth and a more equitable growth process.

60. **Mr. Weisleder** (Costa Rica) asked if the statistics given for Latin America also included the Caribbean and whether any specific traits differentiated the situation of the Caribbean from that of the rest of the subregion. Sustained growth in the Caribbean had been positive, though insufficient owing to a number of imbalances. He wondered what areas should be prioritized in order to achieve sustained growth while reducing the resulting imbalances.

61. **Mr. Matwanga** (Observer for Kenya) wondered whether the prolonged stalemate in the Doha Round negotiations would influence such multilateral policies as aid and debt relief. Developing countries continued to transfer resources to developed countries, and he would welcome information on how developing countries could obtain equal development support in return for those resources. Using economic growth as the main indicator of the global economic situation was not viable for those in developing countries who could not see tangible economic growth in their daily lives. Economic growth did not necessarily reflect the well-being of the people; diversified indicators such as those reflected in the Millennium Development Goals were needed in order to reflect the true economic situation of the majority.

62. **Mr. Tolba** (Mauritania) agreed that a critical analysis of true economic performance with economic growth and other important indicators, including a breakdown of preceding years, was needed in order to establish a direct link between economic growth and population growth and to highlight the needs of the people of the subregions. He wondered how economic growth impacted basic social service infrastructures,

poverty and unemployment. Despite public and private development and investment policies, unemployment and poverty were increasing in West Africa in particular.

63. **Mr. Chaubey** (Observer for the United Nations Children's Fund (UNICEF)) noted that world economies could adjust to a contraction in the economy of the United States of America if they had an institutional framework allowing the fiscal deficit to fluctuate and interest rates to be adjusted. However, the International Monetary Fund (IMF) and World Bank had advised a number of countries to impose fiscal caps and could not use the fiscal instrument for adjustment where needed. He wondered how that was viewed in the light of the proposals contained in the report.

64. **Mr. Ocampo** (Under-Secretary-General for Economic and Social Affairs) said that his remarks had referred only to Latin America. Economic performance in the Caribbean, including the Dominican Republic and Cuba, which, though they were also part of Latin America, had had dynamic economies in recent years, had been better than in the rest of the subregion owing to the Caribbean focus on service exporting. The solution to imbalances was linked to fiscal policy. There were vast differences in social spending in Latin American countries and greater social spending was critical to their elimination.

65. The Doha Round negotiations had resumed in full as from 31 January 2007. While the three-month negotiation framework was short and the issues were complex, there had been no indication that world trade had decreased significantly even with the economic slowdown. In reference to the transfer of resources, the world economic system functioned with a dominant reserve currency, the U.S. dollar. In order to provide liquidity to the rest of the world, the United States of America had to run a deficit, which in turn weakened the dollar, creating a cycle. There had been three cycles since the post-war period; currently the economy was in the downward part of the cycle. A multicurrency reserve would offer the entire world greater stability. Developing countries did not have a world currency and so were forced to accumulate international reserves, which transferred to developed countries. The only way to eliminate asymmetry was for all countries to provide their required liquidity, which was only possible through an international institution such as IMF. The World Economic and Social Survey 2005 had analyzed a number of those systemic issues in greater detail.

66. **Mr. Vos** (Director, Development Policy and Analysis Division) added that while international trade had not been directly affected by the Doha Round negotiations, further global protectionist measures would have negative implications. Consultations on the Aid for Trade Initiative were continuing despite the stalemate in the negotiations.

67. With regard to the use of economic growth as the only indicator of the world economic situation, where possible the report had also analyzed unemployment and job growth rates as well as the poverty index. As it reflected the short-term global economic situation, poverty, inequality and unemployment indicators were not readily available, though with support the statistics could be included. The report summary should have emphasized other indicators more clearly.

68. While fiscal caps did not greatly affect policy coordination, they did impact the ability of countries to avoid pro-cyclical adjustments, which could be damaging to long-term economic growth, of their fiscal balances and, by extension, of their macroeconomic policies. The challenge facing countries with fiscal caps and stable resources was to find and develop mechanisms to survive the different cycles. Countries with oil reserves should save when oil prices were high in order to survive when the prices fell. A number of countries were developing fiscal stabilization funds to ensure the long-term availability of resources for infrastructure and social development investments. The report also stressed multilateral agreements on aid flows in order to offer aid-reliant countries a more stable resource base so that they could stabilize long-term expenditures and ensure anti-cyclical behaviour in macroeconomic policies. The main discussion on policy coordination focused on larger economies because they had a greater impact on the global economy; however, that philosophy would be very similar for smaller economies.

Organization of work

2007 high-level segment of the Council

69. **Mr. Ruiz Massieu Aguirre** (Mexico) said that the consultations on the Council's 2007 high-level segment had not yet produced agreement on the topics to be discussed. However, the consultations would continue, and he would keep the Council and the Bureau informed of their progress.

The meeting rose at 12.20 p.m.